

Message Text

CONFIDENTIAL

PAGE 01 JAKART 11427 221123Z
ACTION EA-12

INFO OCT-01 ISO-00 DOE-15 SOE-02 EB-08 CIAE-00 DODE-00
NSAE-00 NSCE-00 SSO-00 ICAE-00 INRE-00 AID-05
CEA-01 COME-00 H-01 INR-10 INT-05 L-03 OMB-01
PM-05 OES-09 SP-02 SS-15 STR-07 TRSE-00 ACDA-12
/114 W

-----073124 221125Z /11

O 221050Z AUG 78
FM AMEMBASSY JAKARTA
TO SECSTATE WASHDC IMMEDIATE 1002

C O N F I D E N T I A L JAKARTA 11427

E.O. 11652: GDS
TAGS: ENRG, ID
SUBJET: PAC-INDO LNG CONTRACTS

REF: STATE 204201

1. SUMMARY. GOI IS PLANNING TO CANCEL PAC-INDO
CONTRACTS UNLESS USG APPROVAL OF THE PRICE ESCALATOR
IS QUICKLY FORTHCOMING. END SUMMARY.

2. INDONESIAN OFFICIALS HAVE EXPRESSED PUBLICLY TO
THE PRESS AND PRIVATELY TO THE EMBASSY THEIR DIS-
APPOINTMENT WITH OUTCOME OF GENERAL HARYONO'S AND
MINISTER WIDJOJO'S CONVERSATIONS IN U.S. ON PAC-
INGO LNG CONTRACTS. THE INDONESIAN PRESS HAS
TENDED TO OVEREMPHASIZE NEGATIVE ASPECTS OF HARYONO'S
COMMENTS AFTER HIS MEETING WITH PRESIDENT SUHARTO ON
LNG (USINFO JAKARTA 11350 REPORTS SOME OF MORE
EXTREME EDITORIALIZING ON THIS SUBJECT), BUT
PRIVATE CONVERSATIONS INDICATE THAT CONCERN IS DEEP.

3. PERTAMINA PRESIDENT DIRECTOR HARYONO TOLD CHARGE
AND PETROLEUM OFFICER ON AUGUST 22 THAT, PRIOR TO
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PAGE 02 JAKART 11427 221123Z

WASHINGTON VISIT, INDONESIANS BELIEVED THAT THE
REVISED PRICE ESCALATOR FORMULA WITH CRUDE PRICE
LINK WAS AT LEAST CONCEPTUALLY ACCEPTABLE TO U.S.
ENERGY POLICY AUTHORITIES. CONVERSATION WITH
SECRETARY SCHLESINGER HAD, HOWEVER, RAISED SERIOUS
INDONESIAN DOUBTS ON THIS SCORE. MIGAS DIRECTOR
GENERAL WIJARSO IN EARLIER CONVERSATION INDICATED

TO PETROLEUM OFFICER THAT THIS WAS A BLOW TO MANY
INDONESIAN OFFICIALS WHO HAD STRUGGLED FOR SOME
TIME AGAINST OTHERS WITHIN THE GOI ADVOCATING
UNILATERAL CANCELLATION OF THE CONTRACTS. HARYONO
ALSO INDICATED HE WAS UNDER CONSIDERABLE POLITICAL PRESSURE.

4. BOTH HARYONO AND WIJARSO STATED THAT GOI PLANS
TO STAND FAST ON PRESENT ESCALATOR PROPOSAL AND
TO INSIST ON RAPID U.S. DECISION OR CANCELLATION OF
CONTRACT. HARYONO AND WIJARSO BOTH FELT END OF
SEPTEMBER WOULD BE APPROPRIATE GOI "DEADLINE" FOR
U.S. APPROVAL BUT HARYONO CAUTIONED THAT "MY
MINISTERS" MAY WISH TO TAKE DECISION BY EARLY
SEPTEMBER. HARYONO SAID, IF CONTRACT IS CANCELLED,
INDONESIANS WOULD SEEK OTHER BUYERS BUT WOULD BE
SATISFIED TO KEEP LNG IN GROUND FOR FUTURE USE.
WIJARSO SAID THAT PRESIDENT SUHARTO WOULD INSTRUCT
PERTAMINA TO ISSUE A LETTER TO THE U.S.
BUYERS OF THE LNG STATING THAT PERTAMINA WILL
EXERCISE ITS LEGAL RIGHT TO CANCEL THE CONTRACTS
IF CURRENT REVISED ESCALATOR SUBMISSION IS NOT
ACCEPTABLE TO THE U.S. HARYONO, ON THE OTHER
HAND, INDICATED THAT GOI MIGHT RELY ON EARLIER,
JANUARY 1978 LETTER TO DOE AND BUYERS TO ACCOMPLISH
SAME AIM, SIMPLY INFORMING BUYERS THAT
CANCELLATION PROVISIONS OF THAT LETTER WOULD BE INVOKED.
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PAGE 03 JAKART 11427 221123Z

5. EMBASSY COMMENT. WE BELIEVE THE STRING HAS
RUN OUT ON GOI PATIENCE WITH THE US REGULATORY
PROCESS AND THAT THE CONTRACTS MAY WELL BE CANCELLED
UNLESS USG APPROVAL OF REVISED ESCALATOR
IS QUICKLY FORTHCOMING. THE END OF SEPTEMBER OR
EARLY OCTOBER IS PROBABLY THE LATEST GOI WILL
WAIT FOR A DECISION. BECAUSE OF THE SIGNIFICANCE
INDONESIA HAS ATTACHED TO THE SUCCESSFUL
CONCLUSION OF THESE CONTRACTS, REJECTION OR
CANCELLATION WILL CAUSE SOME IRRITATION IN OUR
BILATERAL RELATIONSHIP. THIS WOULD BE UNAVOIDABLE
AND MANAGEABLE IF THE CONTRACTS CLEARLY
FAIL ON THEIR MERITS. HOWEVER, IF USG UNWILLINGNESS
TO APPROVE THE PRICE FORMULA APPEARS TO
INDONESIANS TO GO BACK ON PREVIOUS UNDER-
STANDINGS, CONSEQUENCES COULD BE MORE SERIOUS.
OUR READING OF STATE 204201 DOES NOT SUPPORT
INDONESIAN FEAR THAT THE BASIC CONCEPT OF
THE ESCALATOR WILL NECESSARILY BE REJECTED,
ALTHOUGH SECRETARY SCHLESINGER OBVIOUSLY DID
NOT ENDORSE FORMULA EITHER. EMBASSY WOULD APPRECIATE

WASHINGTON VIEW OF CURRENT STATUS OF USG
REVIEW OF THESE CONTRACTS AND REQUESTS WASHINGTON
ADVICE AS TO ANTICIPATED SCHEDULE OF
REGULATORY REQUIREMENTS STILL OUTSTANDING.
GARDNER

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 jan 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: CONTRACTS, FUELS, PRICE CONTROLS
Control Number: n/a
Copy: SINGLE
Draft Date: 22 aug 1978
Decaption Date: 01 jan 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 20 Mar 2014
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1978JAKART11427
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: GS
Errors: N/A
Expiration:
Film Number: D780342-1377
Format: TEL
From: JAKARTA
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1978/newtext/t19780838/aaaabftd.tel
Line Count: 121
Litigation Code IDs:
Litigation Codes:
Litigation History:
Locator: TEXT ON-LINE, ON MICROFILM
Message ID: 697f635f-c288-dd11-92da-001cc4696bcc
Office: ACTION EA
Original Classification: CONFIDENTIAL
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 3
Previous Channel Indicators: n/a
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: n/a
Reference: 78 STATE 204201
Retention: 0
Review Action: RELEASED, APPROVED
Review Content Flags:
Review Date: 01 may 2005
Review Event:
Review Exemptions: n/a
Review Media Identifier:
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
SAS ID: 1663997
Secure: OPEN
Status: NATIVE
Subject: ET: PAC-INDO LNG CONTRACTS
TAGS: ENRG, ID
To: STATE
Type: TE
vdkgvwkey: odbc://SAS/SAS.dbo.SAS_Docs/697f635f-c288-dd11-92da-001cc4696bcc
Review Markings:
Sheryl P. Walter
Declassified/Released
US Department of State
EO Systematic Review
20 Mar 2014
Markings: Sheryl P. Walter Declassified/Released US Department of State EO Systematic Review 20 Mar 2014